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Navigating Big Finance and Big Technology for Global Change

The Impact of Social Finance
on the World's Poor

Gayle Peterson · Robert Yawson
Ellen J. K. · Jeremy Nicholls



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PREFACE

This book was written to help new social investors do good, avoid harm, and never have to resort to the refrain, “If only we’d known.” It pays particular attention to the potential of money and technology to improve the current and future lives of vulnerable people, and aid the regeneration of our fragile planet. It also provides warning signs of common perils—the things that can go wrong and how to avoid them. Through case illustrations, the authors discuss ways to measure and be held accountable for positive and negative impacts. They provide examples of successful approaches used by colleagues in finance and technology sectors to address the world’s Wicked Problems and, in some cases, make money doing so. Finally, we hope our analysis helps navigate the ethical decisions investors face when balancing purpose and profit. In the end, while we can’t help everyone avoid all the pitfalls, we hope it will make the path a lot clearer.

Big business needs to do good with its profits. Big Technology needs to stop doing harm. And we all need to act “bigger” quickly because, according to the experts, we don’t have much time.

The 17 United Nations (UN) Sustainable Development Goals (SDGs) exemplify the daunting real-life challenges facing humanity and the planet—climate change, inequality and poverty, and destruction of our oceans, forests, and biodiversity, among other things. Are they complete? Probably not: despite providing a lengthy inventory of the elements sustainable development involves, there are other landmine issues not

included in the SDGs. For example, they do not capture threats to sustainable development such as the weakening of democracy aided by “big technology,” and do not grasp the devastating implications of the Fourth Industrial Revolution on the global workforce. They present a picture of what the world should be like, rather than scenarios of what it might be like depending on what actions are taken or ignored.

Nonetheless, they provide a road map for saving the planet at a time when, given the urgency of action, an accurate map or a strong GPS signal is very much needed. That the SDG map shows us are the landmarks on the sustainable development journey, and where the rest stops and repair shops are. What the map doesn’t tell us is who else is on the road, which direction they are travelling in, and at what speed. A map is helpful, but it doesn’t by itself prevent accidents and disasters. In addition to accurate maps, a safe road journey needs elements like a highway code that is understood and adhered to by all drivers, standards of vehicle safety so that drivers have reliable accelerators and brakes, and a well-maintained environment so that we have good visibility and are spared dangerous corners or hazardous road surfaces. In short, a safe, successful journey is not simply about understanding the destination; it is dependent on multiple interconnected elements, many of which are beyond our control.

The importance of something more than a map—something more like an understanding of interconnected systems—came to the fore in 2020 with the arrival of the COVID-19 pandemic. The rapid effect of the virus on global social and economic life highlighted how messy and interconnected the world has become. The virus spread from country to country, brutally disrupting industries and social norms. Rapidly and brutally, it held economic and sociopolitical systems up to the harshest of lights. It exposed their frailties, false assumptions, and contradictions as countries tried to find an appropriate response; but it also showed how things that a few months earlier would have been considered “impossible” were not only possible but desirable once the magnitude of the problem had been understood. Be it lockdowns, government social welfare expenditures, investment in public health, or any number of other interventions affecting people’s individual and collective lives, it was not just possible but essential that we turn the unimaginable into the norm.

The lessons from the COVID-19 pandemic are only starting to be learned, but there are already insights emerging that are relevant to the themes of this book:

Insight 1: What may seem like local problems, quickly escalate into ones that are global, spread by the global interconnectedness that is taken for granted as the norm.

Insight 2: As the “problem” spreads, it becomes apparent that it cannot be “solved” in the way a puzzle can. It is not something that stands alone; it is part of a mess of tightly interwoven issues that feed into each other, generating new problems that require a fundamental rethinking of what is necessary and possible.

Insight 3: What seemed a short while ago “impossible,” becomes possible in a short space of time. Moreover, things we took for granted as normal, are quickly overturned. There are many examples of this including false assumptions that national wealth always equates with better health outcomes—the reality is that “rich” USA and Britain suffered far more than “poor” Indonesia and the Philippines. But as important for this book is how quickly “the normal” changed. Long-held views about social welfare safety nets, public health, and the use of government funds were discarded in quick time, replaced by policies and programs that were previously thought beyond the pale.

Each of these insights has relevance beyond COVID-19. They are important for understanding the complex, messy, interrelated issues that make up the most pressing challenges of our time. Those challenges—things like climate change, inclusion, poverty, threats to life on land and underwater—come together to form “Wicked Problems,” the kind of problem mentioned earlier is not to be seen as a puzzle to be solved. Wicked Problems are messy, chaotic, and threaten what we might consider the “norm.” But if they cannot be solved, they can be remedied or tamed. To do this, however, takes a certain kind of leadership which we call “Deliberate Leadership,” characterized among other things as courageous, collaborative, and creative. The central argument of this book is that Big Finance and Big Technology are so large and far-reaching in the modern world that they are inevitably an element in any Wicked Problem. At the very least, they need to ensure they do not exacerbate the situation; but more than that, they need to exhibit the Deliberate Leadership that will increase their contribution to sustainable development in ways that befit their size and influence. One of the ways they can contribute is through Social Finance which, at the risk of over-simplification, refers to

the allocation of capital primarily for social and environmental returns, or the remedy of complex social/environmental challenges.

Can this book save the planet from wickedly difficult problems? Probably not. But it can be a helpful primer for those using money and technology to achieve the SDGs, while avoiding common pitfalls that can harm the vulnerable people and planet they seek to serve. We recognize how money and technology can work to degenerate rather than regenerate society and the environment, but we also share examples of what works when Big Finance and Big Technology step in to solve big problems, not least through social finance. In doing so, we hope positive impact can be accelerated and deliberate leadership become more widespread. This book draws on our research and empirical case studies resulting from interviews with more than 1500 interviews with social investors in more than 20 countries. These conversations with CEOs working in social investing (philanthropy, impact investing, public funding, intermediary support) in the BRIC (Brazil, Russia, India, and China) to countries in Africa, Europe, and North America. We gathered frank, discerning, and inspiring insights into what works and what doesn't when using social finance to solve Wicked Problems.

Written as an anthology, this book offers perspectives from seasoned (and often bruised from trying) academics, advocates, and advisors. We share both successes and cautionary tales about harm that can occur through uninformed, and often unchecked, social investments, whether philanthropy, impact investing, or traditional finance.

Advisor and academics Gayle Peterson and Robert Yawson guide readers through an introduction to common definitions, social finance and SDGs, and provide a Deliberate Leadership framework to help investors find their North Star to make more ethical decisions when confronting wickedly difficult problems. Tom Van Dyck, managing director and financial advisor of Royal Bank of Canada (RBC), shares his path for making money with mission by embedding a Divest Invest approach into ESG (environmental, social, governance) investment portfolios. ESG challenges are further brought to life through the experiences of the McKnight Foundation developing a Carbon Efficiency Strategy with colleagues at BNY Mellon Capital. Jeremy Nicholls, Social Value founder and self-proclaimed grumpy consultant, challenges readers and the field to consider adopting social accounting practices to track and measure impact. The authors also write about ways technology can both accelerate positive social change and undercut advancements. The final chapter

ends with stories of positive prototypes and what can be achieved when committed people use capital and technology for good. We draw on case studies of UBS Optimus Foundation’s Educate Girls Development Impact Bond and the Future-Fit Foundation which is working to bring companies from all sectors to tackle Wicked Problems more purposefully, and at the same time enable investors to use their position to accelerate change.

These are the toughest of times when we must face the severe consequences of our inaction on climate, slavery, poverty, and injustice, but as *Guardian* contributor and writer Richard Flanagan has said, “*We will discover the language of hope in the quality of our courage*” (Flanagan 2019). The book shares wisdom from courageous people who are using social finance to take risks, experiment, struggle, learn, and adapt their strategies to become more successful when tackling the world’s difficult problems. And that should give us all hope.

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CONTENTS

1	Big Finance, Big Technology, Wicked Problems, and the World's Poor	1
	<i>The Basics: What Are Big Finance, Big Tech, Social Finance, and Wicked Problems?</i>	1
	<i>Big Finance and Big Technology's Role in Social Change</i>	8
	<i>Sustainable Development Goals: Solving the World's Wicked Problems</i>	13
	<i>What Are Wicked Problems?</i>	14
	<i>Conclusion</i>	26
	<i>References</i>	26
2	Wicked Problems and Deliberate Leadership: Finding True North	33
	<i>Deliberate Leadership Framework</i>	33
	<i>Deliberate Leader Learning Process</i>	48
	<i>Conclusion</i>	53
	<i>References</i>	54
3	Promise and Peril of Big Finance	59
	<i>Big Finance and Sustainability</i>	59
	<i>ESG Challenges</i>	63
	<i>What Is not Included</i>	70
	<i>ESG and Tales of Two Climate-Focused Investors</i>	72

<i>The Case of the McKnight Foundation Carbon Efficiency Strategy</i>	82
<i>Conclusion</i>	85
<i>References</i>	86
4 How Do We Know? Measuring Impact	91
<i>Ten Lessons About Impact</i>	91
<i>Time to Scale Impact Measurement</i>	100
<i>Capturing Economic, Social, and Environmental Value</i>	105
<i>The State of Impact: What Do We Mean by More Impact?</i>	112
<i>The Wider Ecosystem</i>	121
<i>Bridging the Gap Between Financial and Impact Accounting</i>	123
<i>Conclusion</i>	127
<i>References</i>	128
5 The Surround Sound of Technology as an Accelerator of Social Good	131
<i>Introduction</i>	131
<i>Technology as an Accelerator of Social Good</i>	133
<i>Technology and the Role of Deliberate Leadership</i>	134
<i>Challenge 1: Control Over Technology's Implementation</i>	135
<i>Challenge 2: Control of Assets and Cryptocurrency</i>	137
<i>A New Channel of Philanthropic Aid for Charities</i>	146
<i>Challenge 3: Control of Voice and Privacy</i>	146
<i>Conclusion</i>	150
<i>References</i>	151
6 From Theory to Practice	155
<i>UBS and UBS Optimus Foundation</i>	155
<i>The DIB: Partners, Committed Financing, and Measurable Results</i>	160
<i>Future-Fit Foundation</i>	166
<i>The Future-Fit Foundation Business Benchmark</i>	168
<i>Is Future-Fit Anything New?</i>	174
<i>Progress to Date</i>	178
<i>Conclusion</i>	180
<i>References</i>	182
Correction to: Promise and Peril of Big Finance	C1
Index	183

LIST OF FIGURES

Fig. 1.1	Mapping social finance (<i>Source</i> Adapted from 2018 Global Impact Investors Network)	6
Fig. 1.2	Overview of social finance marketplace (<i>Source</i> Adapted and re-drawn from Gadaf Rexhepi [2017])	7
Fig. 1.3	UN Human Security Framework (<i>Source</i> Adapted from UN Development Programme, 1994 by pfc social impact advisors [Reproduced with permission from pfc social impact advisors, llc])	22
Fig. 1.4	Human Security Framework and unintended consequences matrix (<i>Source</i> Adapted from UN Human Security Index prepared by social impact advisors [Reproduced with permission from pfc social impact advisors llc])	23
Fig. 2.1	Leadership and organizational culture in supporting innovation (<i>Source</i> Reproduced with permission from pfc social impact advisors llc.)	34
Fig. 2.2	Deliberate Leadership threats and opportunities analysis (<i>Source</i> Reproduced with permission from pfc social impact advisors llc.)	36
Fig. 2.3	Deliberate Leader ecosystem of organizations working on human security (<i>Source</i> Reproduced with permission from pfc social impact advisors llc. 2016. ClimateWorks Foundation: Lessons in Leadership and Learning)	41
Fig. 2.4	Deliberate Leader alignment framework (<i>Source</i> Reproduced with permission from pfc social impact advisors llc.)	44

Fig. 2.5	Deliberate Leader learning process (<i>Source</i> Reproduced with permission from pfc social impact advisors llc.)	49
Fig. 2.6	Deliberate Leader reflection and recalibration (<i>Source</i> Reproduced with permission from pfc social impact advisors llc.)	50
Fig. 3.1	Milestones of social responsible investing and ESG (<i>Source</i> Adapted from Amel-Zadeh 2019)	60
Fig. 3.2	ESG categories (<i>Source</i> Adapted from Amel-Zadeh [2019])	62
Fig. 3.3	Growth in ESG assets by region 2014–2018 (<i>Source</i> Adapted from Global Sustainable Investment Alliance’s 2018 Global Sustainable Investment Review; conversion to US currency based on currency exchanges as of 31 December 2017)	62
Fig. 3.4	Challenges of ESG Mainstream (<i>Source</i> Adapted from Amel-Zadeh [2019])	63
Fig. 3.5	T and Exxon ESG scores: comparison by rating firm (<i>Source</i> Adapted from Amel-Zadeh [2019])	64
Fig. 4.1	The feedback loop (<i>Source</i> Adapted from Feedback Labs, 2017)	99
Fig. 4.2	Concern’s community conversations methodology (<i>Source</i> : Developed from Concern Worldwide Community Conversations Trainer of Trainers Manual, 2013)	100
Fig. 4.3	Estimates of average world GDP per capita (<i>Source</i> Adapted from Bradford De Long 1998)	103
Fig. 4.4	The elephant curve of global inequality and growth, 1980–2016 (<i>Source</i> Adapted from Alvaredo et al. World Inequality Report 2018)	104
Fig. 4.5	Investors’ agency and fiduciary duty to whom?	116
Fig. 4.6	Financial ecosystem vs. social impact ecosystem	121
Fig. 5.1	Unbanked adults by country (%), 2017 (Adapted from Fig. 2.1, p. 36. World Bank Global Findex Database [2018])	141
Fig. 6.1	UBSOF DIB Model (<i>Source</i> [pfc 2019] UBSOF, 2017)	158
Fig. 6.2	Principles of a Sustainable World (<i>Source</i> Adapted from pfc social impact advisors [2019], Future-Fit Foundation 2019)	169
Fig. 6.3	Future-Fit Foundation’s theory of change	176

LIST OF TABLES

Table 1.1	Sustainable Development Goals	15
Table 3.1	Comparison oil and gas companies renewable energy investments	67
Table 3.2	Non-annualized returns (percentage) by selected sectors	75
Table 3.3	Risk adjusted returns 2007–2019: ESG manager, XLE, and S&P	75
Table 3.4	Annual returns for S&P 500 and S&P sectors: 2015–2018	76
Table 4.1	Illustration of select SDG goals, targets, and indicators	93
Table 6.1	Break-Even Goals for waste	171
Table 6.2	Assumptions underlying the Future-Fit offering	177



Big Finance, Big Technology, Wicked Problems, and the World's Poor

THE BASICS: WHAT ARE BIG FINANCE, BIG TECH, SOCIAL FINANCE, AND WICKED PROBLEMS?

Let's begin at the beginning with some common language and concepts. What do we mean when we say Big Finance, Big Tech, social finance, and Wicked Problems? First, let's follow the money—who makes it, manages it, and who is doing good with it?

For a start, globally, the International Finance Corporation (IFC)—a member of the World Bank group—estimates there is as much as \$269 trillion in financial assets held by institutions and households (IFC 2019). These assets are managed by banks, pension funds, Development Finance Institutions (DFI), private investment firms, foundations, and family offices—we collectively refer to these institutions as Big Finance. (Money hidden in a mattress doesn't count.) In addition to the traditional financial returns, Big Finance is also using capital to achieve social and environmental returns, and the commitment is growing thanks in large part to client pressure by Generation Z, millennials, and women. This is a potentially transformative period in finance aligning interest of clients, the needs of private investors, and the call for funding of the UN Sustainable Development Goals. IFC, the world's largest DFI, estimates that “investor appetite for impact investing is as high as \$26 trillion—\$21 trillion in publicly traded stocks and bonds, and \$5 trillion in private markets involving private equity, non-sovereign private debt, and venture

capital Private impact funds currently total around \$71 billion. Larger amounts are invested by DFIs, including more than \$700 billion by those following harmonized measurement metrics, and in green and social bonds (over \$400 billion outstanding). In addition, a share of the \$8 trillion dedicated to activist investing in public markets may be managed for impact Green bonds have grown from around \$10 billion in 2013 to \$183 billion in 2018” (IFC 2019).

With the growth in the demand for new green and socially responsible investments comes the growth in “greenwashing” and the potential for deceptive claims (*Financial Times* 2019). There are efforts to develop principles for stopping “impact washing.” For example, the IFC developed Operating Principles for Impact Management to avoid problems in the field (IFC 2019). These principles are being adopted by watchdog advocacy organization, Accountability Counsel, calling out negative impacts in the international development and impact investing space. It has encouraged IFC to expand its principles and give greater community voice and oversight throughout the life of an investment to ensure safeguards for vulnerable communities. There is a growing call for greater scrutiny and more principled money with the rapid growth of the social finance market principles and the drive to leverage the trillions needed in private capital to achieve the SDGs with integrity.

What About Big Tech?

Forbes’ 2019 ‘Global 2000’ ranking of public companies calls out the largest and most successful companies on the planet, and tech businesses “account for more than \$9 trillion in market value, \$4 trillion in assets, and nearly \$3 trillion in sales” (Ponciano 2019). In 2000, tech companies continued to grow in value, making up 10% of the top 100 firms. The five biggest tech companies in the world—Amazon, Apple, Facebook, Microsoft, and Google’s parent company Alphabet are collectively worth hundreds of billions of dollars, exceeding the value of economies of countries as big as Saudi Arabia. As well as these United States-headquartered brands, there are Asian companies such as Tencent and Alibaba that are part of the powerful Big Tech mix.

Big Tech companies drive Big Finance. Apple continues to be in first place as the most successful tech company in the world with an estimated \$267 billion in revenue in 2019. In the end, this massive amount of money is managed somewhere in the world by big financial institutions.

There are dark and light, negative and positive sides to how Big Tech's resources are used. Well-known tech companies are tackling challenging social and environmental issues caused by lack of consistent global regulation of internet technology and ease of criminals avoiding detection online. For an example of Big Tech working for the common good, we can look to 2018, when major technology companies agreed to work with World Wildlife Fund through the Global Coalition to End Wildlife Trafficking Online. Twenty-one companies including Alibaba, eBay, Etsy, Google, Instagram, Microsoft, Pinterest, Shengshi Collection, Tencent, and 58 Group pledged to work together to collectively reduce wildlife trafficking online across platforms by 80% by 2020 (WWF 2018). In collaboration with WWF, TRAFFIC, and the International Fund for Animal Welfare (IFAW), each company has been developing and implementing policies and solutions to help end wildlife trafficking online. According to WWF, bringing industry together offers the best opportunity to close the web to wildlife traffickers. Inconsistent policies and enforcement allow for trafficking ads to be removed from one site to pop up on another. Illegal sales run from elephant ivory carvings to live animals such as tiger cubs. Further, the sales are in breach of a site's rules. WWF finds that because the Internet's global connectivity and relative anonymity of sellers, combined with rapid transport, enable wildlife traffickers to buy, sell, and ship animals and wildlife products with an online transaction. There is a further worry that as traders and consumers move online, it will be critical to ensure that social media and e-commerce platforms cannot be exploited by the loopholes to detection created by wildlife traffickers (WWF 2018).

The estimated annual value of wildlife crime globally is \$20 billion. Approximately 20,000 African elephants are illegally killed each year for trade in their tusks, and nearly three rhinos are poached each day in South Africa alone for their horns. WWF claims that countless species are under threat from trafficking, accelerated by online access to consumers, most of whom are unaware that the product they are buying could be devastating species populations and funding crime gangs (WWF 2018). This illustration shows the yin-yang of the impact of technology and the planet. According to the UN Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, wildlife protection is critical: more than 1 million species could be extinct within the next few decades (IPBES 2019).

But Big Tech’s dark side can appear more pronounced than its contributions to social or environmental good. A 2020 edition of MIT Technology Review pointed out that Silicon Valley didn’t equip the United States with the infrastructure and technology it needed to fight the COVID-19 pandemic. It hasn’t provided many solutions to climate change. Its gig-economy platforms contribute to weakening labor protections, and its social media sites spread misinformation that weakens democracy (MIT Technology Review 2020). The dark side of Big Tech’s impact on the world’s most vulnerable is illustrated in a *Financial Times* headline: *Tech giants sued over child deaths in DRC cobalt mining* (Dempsey 2019). A landmark legal case was brought against the world’s largest tech companies by families living in the Democratic Republic of the Congo (DRC) who say their children were killed or maimed while mining for cobalt used to power smartphones, laptops, and electric cars (Kelly 2019). Apple, Google, Dell, Microsoft, and Tesla were named as defendants. Cobalt is needed to power rechargeable lithium batteries used in millions of products sold by popular brand tech companies. Demand for products has tripled in the past five years and is expected to double again by the end of 2020. More than 60% of cobalt originates in DRC, one of the poorest and most unstable countries in the world (Kelly 2019).

The court papers allege that cobalt from the UK Glencore-owned mines is sold to Umicore, a Brussels-based metal and mining trader, which then sells battery-grade cobalt to Apple, Google, Tesla, Microsoft, and Dell. Other plaintiffs in the court documents say they worked at mines owned by Zhejiang Huayou Cobalt, a major Chinese cobalt firm which the lawsuit claims supplies Apple, Dell, and Microsoft and is likely to supply the other defendants.

Children were paid as little as \$2 a day for dangerous work in which many were said to have died in tunnel collapses while others suffered life-changing injuries from accidents. The tech companies have been accused of being complicit in the forced child labor. Specifically, the families believe the tech companies had the authority and resources to supervise and regulate their cobalt supply chains, and they knew of the conditions and the link of their products to dangerous child labor conditions.

Apple responded saying: “In 2014, we were the first to start mapping our cobalt supply chain to the mine level and since 2016, we have published a full list of our identified cobalt refiners every year, 100 percent of which are participating in independent third-party audits. If a refiner is unable or unwilling to meet our standards, they will be removed from our